Healthcare

Gradual Policy Transition; Growth Drivers Intact

MARKET WEIGHT
(Maintained)

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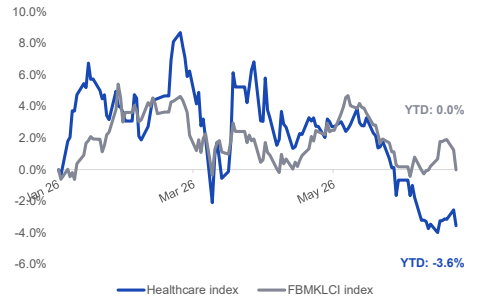
Highlights

- The DRG implementation appears to be evolutionary, not disruptive, with larger hospital groups better placed as pilots, coding and tariff calibration mature gradually.
- Policy risk appears manageable, while hospitals retain multi-year growth visibility from brownfield expansion, daycare growth and medical tourism.
- Maintain MARKET WEIGHT as growth is tempered by elevated valuations. Our top picks for the sector are KPJ Healthcare and Duopharma.

Analysis

- The recent UOB Kay Hian Healthcare Day featured Datuk Dr. Kuljit, President of the Association of Private Hospitals Malaysia (APHM), alongside senior management teams from Alpha IVF, KPJ Healthcare, LAC Med and Sunway Healthcare. Below are the key takeaways from the corporate day.
- **DRG implementation likely to evolve in phases as groundwork progresses.** APHM remains broadly constructive on the direction of diagnosis-related group (DRG) implementation, while highlighting that successful implementation will require continued progress in hospital data standardisation, clinical coding consistency, costing methodology, real-time reporting and the treatment of complex cases. Given the level of groundwork involved, a phased approach appears sensible, potentially beginning with selected, more predictable procedures to allow stakeholders to refine the framework before broader adoption over time.
- **Scale likely matters under DRG; base MHIT could broaden basic coverage over time.** Larger hospital groups such as IHH, KPJ and Sunway should be relatively better positioned to navigate DRG-related transition requirements, given stronger systems, deeper case data, coding capabilities, scale and bargaining power. Smaller standalone hospitals may face higher relative compliance and margin pressure. Separately, base Medical and Health Insurance/Takaful (MHIT) is a constructive step towards improving access to basic medical coverage, though its eventual efficacy will likely depend on take-up rates, risk-pool depth and how the product framework evolves over time.
- **Private hospital operators appear to view DRG as a gradual, data-led transition.** KPJ's and Sunway's views suggest the framework is still very much a work in progress, with participation likely to evolve through pilots rather than near-term broad implementation. KPJ suggested that timing could stretch over a multi-year period and initial coverage may focus on more common, predictable cases. Sunway, meanwhile, has submitted data and volunteered for the base MHIT pilot, but flagged that limited private-sector participation could affect tariff calibration. This reinforces the importance of robust data, representative costing and practical phased implementation.

Healthcare Index VS FBMKLCI Index



Source: Bloomberg, UOB Kay Hian
Healthcare Index is an equal weighted index consisting of IHH Healthcare, KPJ Healthcare, Sunway Healthcare, Duopharma Biotech, Pharmaniaga, Alpha IVF, LAC Med, Optimax, Cengild Medical, and TMC Life Sciences

Sector Picks

Company	Rec	Share Price (RM)	Target Price (RM)
Alpha IVF	BUY	0.24	0.33
Duopharma	BUY	1.19	1.62
KPJ	BUY	3.25	3.85
IHH	HOLD	8.40	9.25

Source: UOB Kay Hian

Peer Comparison

Name	Ticker	Rec	Crncy	Price @ 29 Jun 26 (Lcl crncy)	Target Price (Lcl crncy)	Mkt Cap (US$m)	PE (x) 2026F	PE (x) 2027F	EV/EBITDA (x) 2026F	EV/EBITDA (x) 2027F	Div Yield (%) 2026F	P/B (x) 2026F
IHH Healthcare	IHH MK	HOLD	RM	8.40	9.25	18451.4	33.6	29.3	13.5	12.6	1.2	2.5
BKK. Dusit	BDMS TB	BUY	THB	19.40	32.00	8999.0	18.2	17.2	10.5	9.9	4.0	2.7
Sunway Healthcare	SUNMED MK	NR	RM	1.81	NR	5005.3	71.2	52.4	25.9	21.9	0.0	6.3
Bumrungrad Hosp	BH TB	HOLD	THB	191	196	4490.1	20.2	19.6	13.8	12.9	2.7	4.6
KPJ Healthcare	KPJ MK	BUY	RM	3.25	3.85	3528.3	35.1	32.0	14.8	13.6	1.3	5.1
Raffles Medical	RFMD SP	BUY	SGD	0.92	1.25	1308.2	23.6	21.9	10.1	9.3	3.3	1.7
BKK. Chain Hosp.	BCH TB	BUY	THB	9.95	14.00	739.7	18.3	17.5	8.1	7.8	1.5	1.9
Regional hospitals avg						6074.6	31.5	27.1	13.8	12.6	2.0	3.5
Alpha IVF	ALPHA MK	BUY	RM	0.24	0.42	289.8	21.2	16.4	9.3	8.6	3.9	6.5
Duopharma	DBB MK	BUY	RM	1.19	1.67	282.3	11.2	10.4	6.7	6.5	2.9	1.5
LAC Med	LACMED MK	NR	RM	0.79	NR	76.8	10.9	9.7	5.5	4.4	0.0	2.6
Malaysia healthcare avg						216.3	14.4	12.2	7.1	6.5	2.3	3.6

Source: Bloomberg, UOB Kay Hian

Key takeaways from UOBKH Healthcare Day

Alpha IVF

- Expansion pipeline timeline is largely intact. Facilities in Jakarta and Tuguegarao are targeted to commence operations by September, while Johor Bahru is expected by end-26. The Bali facility is likely to be operational by mid-27.
- Gestation of Sabah and Manila… Manila has ramped up relatively fast, turning EBITDA-positive in its first operating quarter and is now PAT-positive. Sabah has yet to achieve PAT breakeven given the relatively higher doctor salaries.
- …while maintaining clinical excellence. Manila's early operating clinical metrics are encouraging, with a fertilisation rate of 78.6%, blastulation rate of 55.8% and pregnancy rate of 66.7%. While lower than group clinical metrics, management noted that it is far higher than comparable local peers in the Philippines.
- Foreign medical tourism. Indonesian patient flow has softened slightly due to rupiah depreciation and higher travel costs. Alpha's existing facilities and the upcoming facility in Jakarta will help localise demand.
- Main Market transfer. Alpha is ACE-listed, but management noted that discussions with advisers and efforts are ongoing for a Main Market transfer.

KPJ

- Competition with KPJ Ipoh. KPJ Ipoh appears capacity-constrained, with management indicating that it is running at full utilisation with minimal doctor attrition of less than 1–2 doctors despite the emergence of Sunway Ipoh.
- Gestation/breakeven timelines. Gestation losses appear increasingly manageable, with the remaining four hospitals' cumulative losses indicated at below RM40m. Most are nearing breakeven, though Perlis still needs more time.
- Increased daycare focus. ACC/daycare is positioned more as a strategic catchment and funnel tool than a superior-ROI asset. KPJ can leverage its 30-hospital network, using ACCs in underserved pockets to diagnose, capture patients and channel cases back to hospitals.
- Foreign medical tourism growth. Health tourism remains a clear growth lever, with 1Q26 revenue rising 21% yoy to RM68m from RM56m. Management targets continued double-digit 2026 growth, supported by regional execution and deeper market penetration, particularly Indonesia.
- Medical inflation. No major incremental medical inflation spike was flagged.
- DRG. The near-term impact of DRG on KPJ looks manageable as the first phase likely covers common diseases such as dengue and pneumonia, which account for less than 20% of revenue. Larger hospital groups should be better positioned than smaller hospitals due to scale.
- Underlying earnings momentum remains healthy. Outlook is supported by further gestation of hospitals, increased revenue intensity, case mix and brownfield capacity.

LAC Med

- Tender/order book. Tender visibility remains strong, with a RM260m orderbook, RM672m tender pipeline, 25-30% historical win rate and RM106m Abbott wins. Public/private win rates are similar, although government tenders comprise 70% of all tenders. Management targets recognition of >60% of the RM260m order book in FY26.
- Indonesia outlook. Indonesia is a longer-term growth option, with 800+ devices installed and RM40m+ active tenders. Management expects Indonesia to account for <10% of the group's total FY26 contribution, with Malaysia contributions being able to mitigate any near-term drag.
- Addressable market expansion: LAC Med currently serves <30% of hospital spend, leaving >70% untapped across intensive care unit (ICU), oncology, orthopaedics, ear, nose and throat (ENT), maternity, nephrology, respiratory and pharmacy through new clinical segments and brand partners.
- Shift to recurring revenue. Recurring revenue has risen from ~5% historically to ~20% currently, with management targeting a 40% contribution mix over the longer term, driven by consumables, digital/AI subscriptions, multi-year services and equipment as a service (EaaS).
- Public sector contracts during an election year. Revenue mix is typically around 50:50 between the public and private sectors. Management indicated that elections historically do not delay healthcare tenders and may even increase hospital spending.
- Equipment and consumables pricing. Management expects 2-3% price increases for heavy equipment, mainly from major equipment principals. No immediate cost increase has been seen for consumables, though consumables generally carry lower margins than equipment.
- Sales/earnings seasonality. Revenue is structurally back-end loaded, with 1H typically contributing 25-30%, 2H at around 70%, and 4Q alone accounting for 50% or more, reflecting hospital budget approvals, tender awards and year-end recognition.

Sunway Healthcare

- Faster-than-expected gestation out of Ipoh. Ipoh achieved EBITDA breakeven within nine months, ahead of the initial 12-month expectation, driven by its full-fledged cancer centre (anchored by Perak's first PET-CT, drove referrals from private and government hospitals) and onboarding of insurers.
- Breakeven timelines. Further gestation remains encouraging, with Damansara and Ipoh already EBITDA positive and PBT breakeven targeted by end-26/early-27.
- Increased daycare focus. 1Q26 daycare patients grew 19.2% yoy, the fastest across segments (vs inpatient admissions grew 14.6% yoy). Sunway plans to increase daycare bed allocation beyond the historical 10% of beds.
- Foreign medical tourism growth. 1Q26 foreign patient revenue grew 47% yoy. Notably, despite the Indonesian rupiah softening since 2024 and the implementation of SST on foreign patients in Jul 25, it was only recently that higher airfare resulted in Indonesian patient volume softness post-February as airfare and hotel are generally self-funded by insured Indonesian patients. About 60% of inbound medical tourists are from Indonesia. Nevertheless, growth in patients from Cambodia, Timor-Leste and China showed headway.
- Medical inflation. No clear Middle East-driven cost inflation uptick; management cited no major supply disruption and 2-3 months' critical stockpile.
- Additional greenfield sites. Management is evaluating 2-3 additional greenfield sites, potentially in Penang, Kota Bharu and other regions.
- DRG: Policy impact remains evolving, with DRG data participation appearing subdued and the base MHIT pilot timing still unclear. Sunway is cooperating, but accurate tariffs and implementation readiness remain key sector watchpoints for private hospitals overall.
- Earnings trend outlook. EBITDA should improve through the year as seasonality normalises and there is further Damansara/Ipoh gestation, supporting a mid-20% margin target over the near term.

Source: Respective companies, UOB Kay Hian

Valuation/Recommendation

- **MARKET WEIGHT: Healthy growth, tempered upside.** Sector heavyweights KPJ Healthcare (KPJ) and IHH Healthcare (IHH) collectively offer an attractive earnings growth of 13.6% and 14.9% for 2026 and 2027 respectively. This is balanced by: a) hospital valuations (33.9x PE) trading above the seven-year mean PE (32.7x)) and, to a lesser extent, b) a de-escalation in the Middle East conflict although potential spillover effects linger, and c) foreign medical tourist arrivals from Indonesia being affected by a sharply depreciating Indonesian rupiah. Positively, healthcare policy does not appear to pose a significant near-term downside risk.
- Meanwhile, Duopharma Biotech's (Duopharma) earnings growth is moderating, but remains attractive at 17.1% growth, backed by enlarged government contracts and favourable forex. Contrastingly, Alpha IVF Group's (Alpha IVF) FY26 earnings contraction of 7.0% is attributed to the more than doubling of its facilities over three different countries. While it is due to break even in under a year, it is nonetheless dragged by start-up costs which are weighing on earnings. However, the company is expecting an earnings growth of 23.8% in FY27. By virtue of the heavyweights, we ascribe a MARKET WEIGHT to the healthcare sector. We prefer the hospital segment for its multi-year growth runway from brownfield expansions, with KPJ as our preferred exposure. Duopharma is also a top sector pick for its palatable valuation and steady earnings visibility.

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